

Dislocation brings opportunities, challenges for Milestone Advisors

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By Tim Zawacki

These are interesting days for Milestone Advisors LLC, a Washington, D.C.-based investment banking boutique.

Among other services, Milestone conducts merger & acquisition advisory work for clients in various parts of the financial services industry, but the firm has developed a particular niche in the mortgage space. CEO Eugene Weil told SNL Financial that mortgage transactions make up about 25% to 30% of Milestone's practice. And over the course of the last three years, the firm has nearly double as many transactions to its credit in and around the residential mortgage space as its closest competitor, according to SNL's league tables.

Now, in what Weil said is a mortgage market characterized by dislocation, Milestone has been actively engaged in selling off a number of subprime origination platforms, among a range of other ongoing activities.

"In all of our professional careers, I think I can safely say, we've never seen this big of a dislocation happen in a sector this quickly," Weil told SNL. As a result, he added, "there's way more product out there on the streets than there are buyers."

Milestone's pipeline "is as robust as ever," Weil said, but the challenge comes in trying to determine what deals can get done in the current environment.

"What it means for us is that, every day, the phone is ringing off the hook, and it's really a function of saying, 'What are the best companies out there that either are going to survive on their own or survive as part of a larger brokerage firm, a commercial bank or a hedge fund?'" he said. "It's about trying to pick your spots and get deals done."

Timing is another challenge.

"The biggest problem we're having is [potential sellers] wait too long to call,"

Weil said. "They do call, but they let it go two months too long. We're certainly doing more triage than we've ever done."

Milestone's bankers said many deals now need to be completed on an expedited timeline and they are more labor intensive. Transactions tend to be more structured than in the past, with requirements for short-term financing, the separation of the origination and servicing platforms, or other accommodations. And multiple parties may participate in buying assets or providing financing, rather than a single acquirer.

A look at Milestone's mortgage transactions over time offers a glimpse at how significantly the subprime market has changed.

In mid-2005, for instance, the firm advised Royal Bank of Canada on the sale of RBC Mortgage Co. to New Century Financial Corp. At the time, New Century was counting on the RBC operations to provide capabilities in the prime and Alt-A market segments as part of its plan to become a full-service mortgage shop. In December 2005, Milestone was again involved in advising on a transaction in which New Century was the acquirer, representing privately held warehouse lending services company Access Lending Corp. in a deal initially valued at \$9.8 million.

Just over a year later, reeling from its disclosure of the need to restate financial results for the first three quarters of 2006, New Century filed for protection under Chapter 11 of the U.S. Bankruptcy Code. And among a wide range of ongoing asset sales, New Century is seeking to divest the former Access Lending to a group led by the business's management.

Indeed, Milestone itself is representing ResMAE Mortgage Corp. in its sale under Section 363 of the bankruptcy code to Citadel Investment Group LLC in

a transaction that SNL values at \$182.4 million.

In the short term, the chaos in the subprime space "certainly plays to our strengths," Milestone Managing Director Jeffrey Levine told SNL. "Unlike a year ago, where you could just put a book together and set a bid date, and if it was of decent size, scale and counterparty, you'd get multiple bids. It was a straight corporate sale. Now, you're going to have to find the new entrant into the sector or maybe consider an alternate transaction structure. That's when you need some real knowledge of the underlying assets and some people who can roll up their sleeves, and I think that's something that suits a boutique firm like ourselves."

Weil said he has witnessed a greater focus on M&A in the servicing side of the mortgage business, including in the area of default management, as subprime originations slow. In fact, he expects subprime volumes could shrink by 50% or more going forward.

"A lot of capacity has to come out of this business," Weil said. "I think there clearly are guys hanging on out there that don't survive. I think we're done this year, by and large, with this consolidation movement. But there's clearly more to go."

Milestone is making preparations for the end of the consolidation phase in seeking to identify those players that could attempt to establish niches in the space when the dust begins to settle. The firm is also emphasizing its other areas of strength within the financial services industry.

Among several transactions announced to date in 2007 outside of the residential mortgage business, the firm served as financial adviser to Stone Street Capital Inc., a Maryland-based purchaser of periodic cash flow streams, in its sale to an investor group. It advised Umpqua Holdings Corp. and provided a fairness opin-

ion relating to a January agreement to acquire North Bay Bancorp. Additionally, it served as financial adviser to Beal Bank SSB in its \$20 million private placement of trust preferred securities in March.

Weil said that Milestone has also been

active in the commercial real estate finance sector, especially in the small balance commercial and multifamily end of the market. The firm is also targeting engagements in the accounts-receivable management business.

“There’s lots of consolidation going on. Obviously as we see credit issues out of the housing market, it’s good news for that space,” Weil said. “Those companies end up doing more and more work.”

And it seems so, too, will Milestone. *i*